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## THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

DDI 5060-82  
18 June 1982

Senior Review Panel

MEMORANDUM FOR: Director of Soviet Analysis

FROM : 

25X1

SUBJECT : Soviet Defense Spending

1. For at least the last two years there have been recurrent references in Agency and interagency publications to Soviet defense spending having grown at an average annual rate of 4% for the last 10 or more years, and projections that such a rate of growth will be maintained for the near future at least. The implications of such a growth rate for the Soviet economy are clearly drawn and shown to be fairly drastic, especially if the GNP grows at only 2% per annum, as is also projected.

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3. In studying these papers, I have been struck by the fact that the curves showing Soviet defense spending trends, e.g., the figures on p.p. iv and 11 of publication (a) above, and Figure 1, page 2 of publication (b) above appear to be linear with time, rather than exponential. In fact, a fairly good fit (by eye) is provided by the straight line relationship from publication (b),

Expenditures =  $27 + 2.08(Y-1959)$   
(in Billion Rubles)  
where Y is the year.

In other words, the Soviets spent 27 billion rubles on defense in 1959, and have increased that by 2.08 billion

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rubles per year. In estimated dollar costs, the relationship is, from publication (a),

Expenditures =  $150 + 5.56 (Y-1971)$   
(in Billion Dollars)

4. If this interpretation, or some other linear, but more precise, version of the best fit, is valid there ought to be some reexamination of the projected Soviet defense growth rate and its implications for the Soviet economy. I would be pleased to hear your comments.

5. Attached is my best fit for the curves described.



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Attachment

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SRP:tb

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## General Expenditure Trends

### Total Spending

Analysis of the levels and trends in total Soviet defense expenditures<sup>1</sup> between 1951 and 1980 reveals three distinct periods (see figure 1). (U)

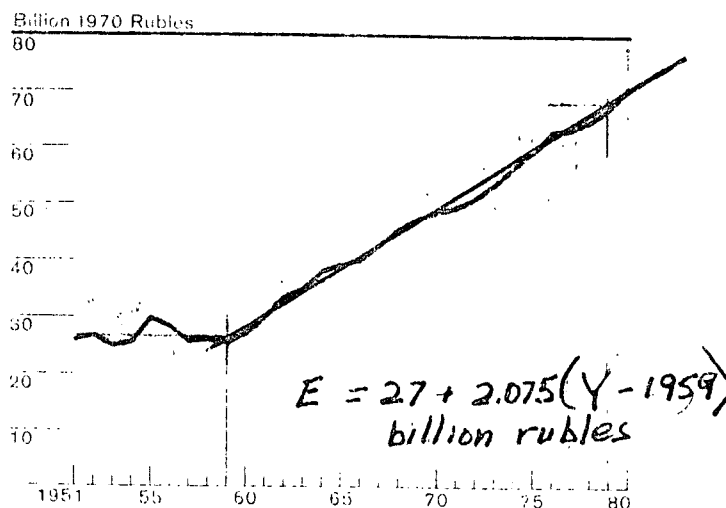
Between 1951 and 1955, the trend in defense expenditures was dominated by a dramatic increase in 1955 because of large aircraft procurement programs for air defense and strategic attack. During this period, the Soviet armed forces were structured primarily for the type of combat experienced during World War II and were characterized by large tactical aviation and ground forces formations. (U)

During the mid- and late 1950s, the Soviet force structure began to change in response to an evolving nuclear doctrine. Emphasis shifted from the maintenance of large general purpose forces to smaller forces equipped with newly developed missiles and streamlined for the nuclear battlefield. Military manpower was cut back substantially, and an absolute reduction in Soviet military outlays occurred, which amounted to almost 4 percent a year. (S)

This declining trend was reversed in 1960 as Soviet defense expenditures began two decades of steady increases. The years 1960-65 represent the highest growth years, reflecting growing resource commitments to RDT&E, space programs, and strategic forces. During this period, defense was growing at about 8 percent a year while the rate of economic growth had declined to between 4 and 5 percent annually because of a slowdown in industrial productivity and the disastrous harvest of 1963. (U)

<sup>1</sup> The analysis in this report is based on a broad definition of Soviet defense expenditures which includes activities that the Soviets may define as defense related but which are not included within the US definition of defense. These include expenditures for internal security forces, construction and railroad troops, and the type of space programs that are carried out by the military in the USSR but by NASA in the United States. (U)

Figure 1  
Estimated Soviet Defense Expenditures,  
1951-80



The expenditures in the graph, expressed in 1970 rubles at factor cost, are based on a broad definition of Soviet defense expenditures which includes activities that the Soviets may define as defense related but which are not included within the US definition of defense. These include expenditures for internal security forces, construction and railroad troops, and the type of space programs that are carried out by the military in the USSR but by NASA in the United States. The shaded area represents a confidence interval around the estimate for each year. We believe there is only a 10-percent chance that the "true" figure for any given year lies outside the shaded area.

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The relationship of defense growth to economic growth changed after 1965. From 1965 to 1978, Soviet defense expenditures grew at roughly the same average rate as the economy-- about 4 percent per year. (U)

Recent trends in Soviet defense spending and the economy suggest that defense expenditures may be returning to the relationship of the early 1960s when growth in military outlays exceeded economic growth. The implications of these trends for Soviet defense spending in the 1980s are discussed in this paper. (U)

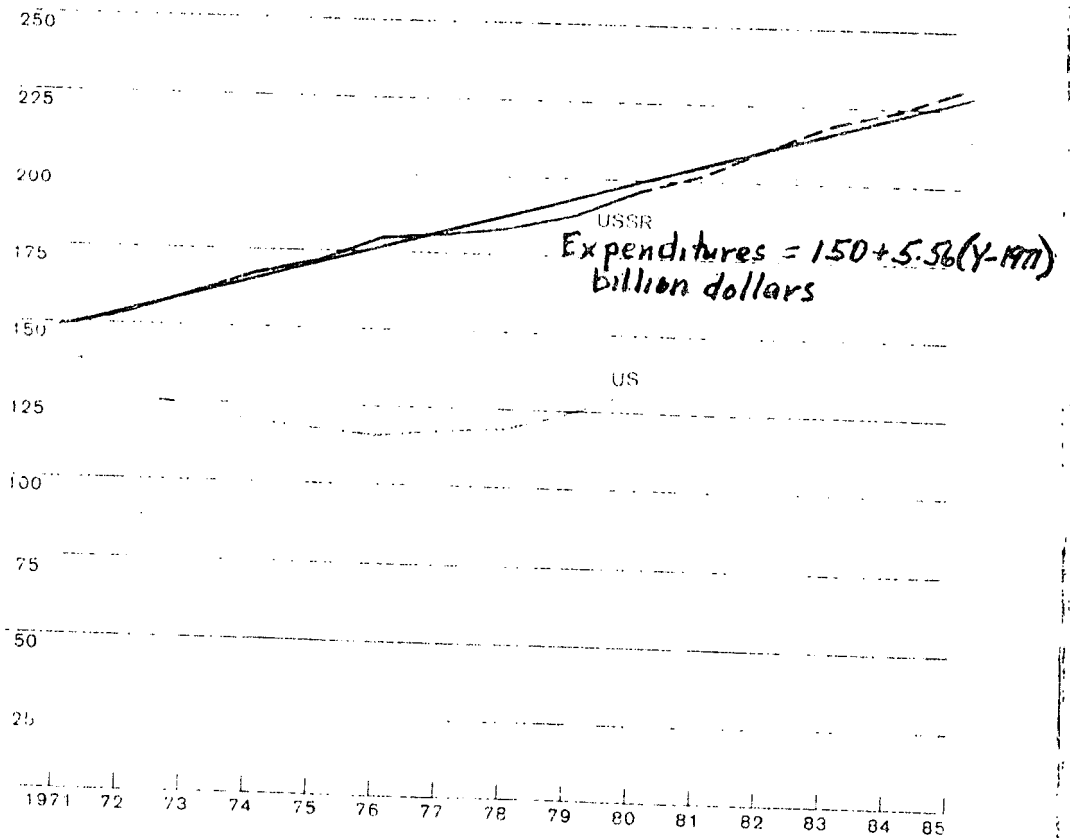
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## US and Soviet Defense Activities

A comparison of US outlays with estimated dollar costs of Soviet activities

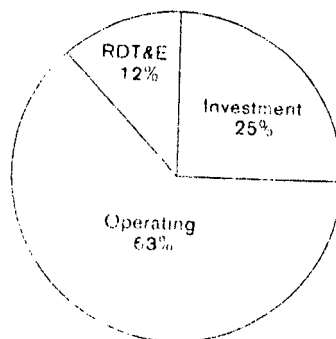
Billion 1980 dollars.



Cumulative, 1971-80

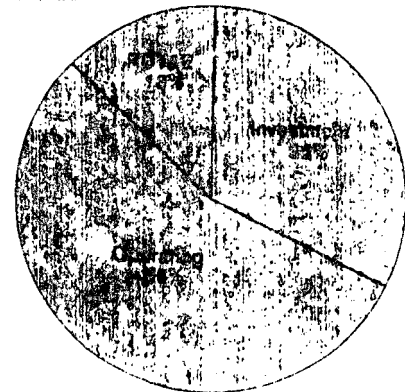
US

Total: \$1,240



USSR

Total: \$1,725



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